

# FIRST QUARTER 2006

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Stephen L. Rochelle  
Chief Executive Officer



William H. Voss  
Chairman of the Board

April 28, 2006





*First South Farm Credit, ACA*  
**Consolidated Balance Sheets**

<i>(dollars in thousands)</i>	<b>March 31, 2006</b> <i>(unaudited)</i>	<b>December 31, 2005</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 6,350	\$ 20,207
Loans	965,415	985,486
Less: allowance for loan losses	5,434	5,425
Net loans	959,981	980,061
Accrued interest receivable	12,011	12,621
Investment in other Farm Credit institutions	61,849	61,849
Premises and equipment, net	4,299	4,351
Other property owned	584	479
Prepaid retirement expense	7,045	7,523
Due from AgFirst Farm Credit Bank	2	9,311
Other assets	2,340	991
Total assets	<u>\$ 1,054,461</u>	<u>\$ 1,097,393</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 812,339	\$ 856,986
Accrued interest payable	3,258	3,334
Patronage refund payable	4	3,199
Postretirement benefits other than pensions	18,665	11,560
Other liabilities	9,222	8,480
Total liabilities	<u>843,488</u>	<u>883,559</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	140	140
Capital stock and participation certificates	64,033	63,927
Retained earnings		
Allocated	61,103	68,020
Unallocated	85,697	81,747
Total members' equity	<u>210,973</u>	<u>213,834</u>
Total liabilities and members' equity	<u>\$ 1,054,461</u>	<u>\$ 1,097,393</u>

*The accompanying notes are an integral part of these financial statements.*

*First South Farm Credit, ACA*  
**Consolidated Statements of Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Interest Income</b>		
Loans	\$ 16,787	\$ 13,224
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	9,308	6,613
Net interest income	7,479	6,611
Provision for (reversal of allowance for) loan losses	200	—
Net interest income after provision for (reversal of allowance for) loan losses	7,279	6,611
<b>Noninterest Income</b>		
Loan fees	638	647
Fees for financially related services	13	6
Equity in earnings of other Farm Credit institutions	1,522	1,415
Gains (losses) on other property owned, net	(1)	31
Other noninterest income	127	106
Total noninterest income	2,299	2,205
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,520	3,432
Occupancy and equipment	291	242
Insurance Fund premium	334	80
Other operating expenses	1,169	985
Total noninterest expense	5,314	4,739
Income before income taxes	4,264	4,077
Provision (benefit) for income taxes	15	79
Net income	\$ 4,249	\$ 3,998

*The accompanying notes are an integral part of these financial statements.*

*First South Farm Credit, ACA*

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2004	\$ 142	\$ 63,360	\$ 58,064	\$ 81,097	\$ 202,663
Net income				3,998	3,998
Capital stock/participation certificates issued		442			442
Capital stock/participation certificates retired		(240)			(240)
Retained earnings retired			(6,534)		(6,534)
Distribution adjustment			154	(222)	(68)
Balance at March 31, 2005	\$ 142	\$ 63,562	\$ 51,684	\$ 84,873	\$ 200,261
Balance at December 31, 2005	\$ 140	\$ 63,927	\$ 68,020	\$ 81,747	\$ 213,834
Net income				4,249	4,249
Capital stock/participation certificates issued		455			455
Capital stock/participation certificates retired		(349)			(349)
Retained earnings retired			(7,147)		(7,147)
Distribution adjustment			230	(299)	(69)
Balance at March 31, 2006	\$ 140	\$ 64,033	\$ 61,103	\$ 85,697	\$ 210,973

*The accompanying notes are an integral part of these financial statements.*

First South Farm Credit, ACA

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

## NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of First South Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2005, are contained in the 2005 Annual Report to Shareholders. These unaudited first quarter 2006 consolidated financial statements should be read in conjunction with the 2005 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles. The results for the three months ended March 31, 2006, are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with generally accepted accounting principles. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2006, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

## NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

Balance at 12-31-04	\$ 5,189
(Reversal of) provision for loan losses	—
Recoveries, net of loans charged off	<u>38</u>
Balance at 3-31-05	<u>\$ 5,227</u>
Balance at 12-31-05	\$ 5,425
(Reversal of) provision for loan losses	200
Loans (charged off), net of recoveries	<u>(191)</u>
Balance at 3-31-06	<u>\$ 5,434</u>

## NOTE 3 – EMPLOYEE BENEFIT PLANS

The Association's employees participate in a defined benefit retirement plan. This plan is noncontributory and covers substantially all employees of the Association.

The following is a table of the components of net periodic benefit (income) cost for the defined benefit retirement plan for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Service cost	\$ 377	\$ 310
Interest cost	587	570
Expected return on plan assets	(718)	(631)
Amortization of net (gain) loss	(84)	(85)
Amortization of prior service cost	36	36
Recognized net actuarial (gain) loss	<u>280</u>	<u>189</u>
Net periodic benefit (income) cost	<u>\$ 478</u>	<u>\$ 389</u>

As of March 31, 2006, no contributions have been made to the pension plan for 2006. The total employer contribution expected for 2006 is \$1,250.

The Association also participates in Districtwide thrift and other postretirement benefit plans. The other postretirement benefit plan provides certain benefits (primarily health care) to its retirees.

The following is a table of retirement and postretirement benefit expense for the three months ended March 31, 2006:

	For the three months ended March 31,	
	2006	2005
Pension	\$ 478	\$ 389
Thrift/deferred compensation	60	56
Other postretirement benefits	<u>100</u>	<u>209</u>
Total	<u>\$ 638</u>	<u>\$ 654</u>